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discourse, institutions, output and outcomes

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Ambiguity of welfare state change: Institutions, output and outcomes

Very first draft, not for quotation

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Ambiguity of welfare state change: Institutions, output and outcomes

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Abstract:

Whereas institutional immobility was a dominant theme in welfare state theory in the 1990's, change is now on the agenda. It has become increasingly clear that welfare states in fact do change quite a lot, but our concepts of magnitude and direction of change are rather poorly developed, and some of the most commonly applied concepts often run into difficulties when they are applied in other fields than those from which they were originally derived. As a consequence, assessment of changes are often very different from one scholar to the other. This paper surveys some commonly applied notions of change and point out the multiplicity of dimensions that are ex- or implicitly involved. Most importantly, we need to distinguish between change in discourse, change in institutions, change in output and change in outcomes. As far as services is concerned, the latter involves a focus on implementation. Drawing on the classical insights of functionalism and institutionalism, it is further argued that in a "governance" world, we increasingly have to take account of "functional equivalence" between different institutional constellations (including different "welfare mixes"), but at the same time be aware of the dynamics of institutional change (what is functionally equivalent at t1 need not be functionally equivalent at t2).

1. The problem

At the time of the “welfare modelling” discussions in the early 1990's it was a widely shared assumption in welfare state theory that welfare states did not change very much. Institutional “stickiness” was a common theme, and “path dependence” was seen more often as simple inertia than as a dynamic phenomenon. The picture of immobility was carried on in the early retrenchment literature, first with the assertion that retrenchment rarely went very far (Pierson, 1994), and later with emphasis on the many veto points that made welfare states almost “immovable” in spite of “irresistible forces” (Pierson, 1998).¹ From the second half of the 1990s, however, it was increasingly recognized that welfare states exhibited a “declining resistance to change” (vanKersbergen, 2000), and that “elephants (were) on the move” (Hinrichs, 2000). And since then, most scholars have acknowledged that we are in the midst of quite far-reaching welfare reforms, most often seen as a response to strains that are considered to be “very real” (Pierson, 2001: 4). A reason why change had often been neglected previously is the fact that changes often take place in slow motion: Now, it was (re-)discovered that incremental change (as pointed out by Lindblom, 1959) may often have far-reaching potentials (Andersen & Larsen, 2002; Clasen & Kangas, 2003). Another reason probably was accelerating speed of change itself in many welfare states.

We shall not discuss here the question of sources of change (Andersen, 2001), even though it cannot be entirely separated from interpretations of change. But it is worth reminding that sources of change include not only economic and social “challenges”, but also interests and ideas. Institutions and institutional changes are both dependent and independent variables. Institutions frame ideas and norms, allocate power resources between actors, and constrain strategies as well as outcomes. This way, institutional change is sometimes self-reinforcing. Still, as far as outcome is concerned, the range of variation may be quite wide. Institutions matter, but formally similar institutions may produce highly different outcomes, and different institutions may produce similar outcomes. For instance, in the field of pensions, there is little left of a “Nordic model” when we speak about institutions. But they seem to produce similar outcomes,

¹

Actually, the assumption of voter resistance was relatively new. In the 1970's and 1980's, there were a lot of theories about the “legitimacy crisis of the welfare state”. Strangely enough, this was an argument shared by neo-Marxists, neo-liberals and scholars emphasizing “fiscal illusions”. Even though such theories were disconfirmed empirically, it was not until Pierson (1994) turned the assumption around, that the idea finally died out. The “crisis of the welfare state”, on the other hand, was a very real phenomenon. For instance, one may recall the enormous budgetary pressures in some countries in the aftermath of the two oil crises in 1973/74 and 1980/81. In Denmark, the budget deficit reached 11.5 per cent of GDP by 1982 (Andersen & Christiansen, 1991:65).

both in the past and in the future (Petersen, 1999; Larsen & Andersen, 2004).

However, our concern in this paper is not the sources, but the conceptualisation, measurement and interpretation of change. Here we find much disagreement in interpretations, both about magnitude and direction of current welfare state change. Some writers argue that the European welfare state has survived (Kuhle, 2000), perhaps at a slightly less generous level, and that what is taking place is typically simple cost containment or, at most, a “recalibration” (Pierson, 2001). Others see more or less of a neoliberal revolution. From a systematic account of selected entitlements, Korpi & Palme (2003) reach the conclusion that a substantial recommodification has taken place. Much of the workfare literature (Lødemel & Trickey, 2001) and the literature about globalization (Mishra, 1999; Bonoli, George & Taylor-Gooby, 2000) has pointed in similar directions. Gilbert (2002) has even spoken of a silent revolution - a “silent surrender of public responsibility” - in most developed welfare states, and “a transformation of the welfare state” into an “enabling state”. Further, what is interpreted by some authors as a “natural” adaptation to individualisation and de-standardisation (Guillemard, 2005), is seen by others essentially as a privatization of social risk (Sinfield, 2005).

This reflects not only subjective evaluations or arbitrary selection of indicators. Rather, it reflects conceptual confusion as well as the ambiguity of change itself. As to conceptual problems, we face an expanded “dependent variable problem”: How should change be conceptualised, and how should it be measured? How do we deal with the multidimensionality of change when institutional change, discursive change, change in output, and change in outcomes point in different directions? What are the scales of measurement if we soften the state vs. market dichotomy in favour of a “multipillar” approach? How do we deal with issues like adaptations to individualisation and demand for freedom of choice? How do we deal with “active citizenship” approaches to change? And how should we interpret varieties of privatisation and new public management - does that signify a victory of the market, or does it simply mean more efficient provision of welfare (to the extent it is more efficient)?

As to the issue of ambiguity, this derives from at least two aspects: In the first place, some changes like changes in the pensions system will only reveal their full impact after several decades. This means that their final effects will at best be uncertain. And secondly, some institutional changes should not be evaluated on the basis of their immediate effects but rather on the basis of their potentials for installing future dynamics of institutional change. However,

again we can only know these long-term impacts after several decades.²

There is yet another reason for dealing with the “expanded dependent variable” problem. In many countries, existing welfare arrangements will come under pressure, not least due to ageing. Tax rates will increase quite dramatically in the future unless these arrangements are somehow modified. This has increased the search for alternatives. In particular, many political actors would welcome alternatives that could help to solve the financial problems without sacrificing current levels of security and equality. This may *in principle* be possible through deliberately designing a “multipillar” approach which combines private and public arrangements. If we assume that it is possible to design such arrangements - in ways that cannot simply be labelled “recommodification” - it becomes highly misleading only to focus on the public pillar. Rather than focus on formal institutions of one pillar, or on outputs from one pillar, we should focus on outcomes from the combined system. Like in political science where a “government” approach is being replaced by a “governance” approach, we could call this a governance approach to the welfare state.³

In this paper, we try to “deconstruct” the concept of change and to elucidate its multidimensionality. We do not distinguish between the welfare state as a whole and particular programmes, even though, ultimately, our concern is the former. For our purpose here, the welfare state may be loosely defined as programmes aiming at providing social services and benefits or tax subsidies for welfare, but with emphasis on the relationship between state and non-state collective arrangements. Basically, what follows is an exploratory endeavour, but we shall argue

² Essentially, this is perhaps not a very new problem: In the history of the welfare states - in some countries more than in others - we often find examples that the full impact of some of the most significant reforms was never recognized by their contemporaries. For instance, the 1891 social reform in Denmark initiated the tax-financed and citizenship based approach to welfare. This was done in conscious contrast to the corporatist Bismarckian social insurance approach. But it was never envisaged that it would eventually - and almost inevitably - pave the way for Social Democratic universalism in the long run; actually, the reform was adopted by Liberals and Conservatives, against the votes of the three Social Democratic members of parliament.

³ Again, this problem is not completely new. In some countries, agreements between the social partners has always been an important supplement to -or substitute for - state regulation and state welfare. For instance, some countries do not have any legal minimum wage, or insufficient compensation during leave, incomplete laws concerning holidays etc., because these are more or less a matter of collective agreements. Mixtures between collective “private” and public arrangements were even more widespread during the early days of the welfare state. At any rate, especially collective arrangements outside the welfare state always have to be taken into account if we are to avoid purely formal delineations of the welfare state. Actually, the problem is completely equivalent to the classical problem of defining politics and delineating the political system in political science where the idea of delineating politics to the state apparatus was given up already by Easton (1965).

that the question of welfare state change should be more dissociated from the notion of retrenchment and economic pressures, that the sharp distinction between state- and non-state welfare should be softened, and that particular attention should be directed to outcomes on the one hand, and to the possible installment of new institutional dynamics on the other.

2. Quantitative measures of growth and retrenchment: Budgets and compensation levels

The first generation of literature about welfare state change in the 1970's was concerned with growth in public budgets or social expenditures (Wilensky, 1975). This holds also for the “does politics matter” discussion about the sources of growth in the public sector (where a famous article by Cameron (1978) - worth remembering in a period of discussions about globalization - pointed out that a far more important variable than politics was the openness of the economy: The more openness and international competition, the more need for a large welfare state).

The social expenditure indicator was also used when the perspective on welfare state change shifted from growth to retrenchment (Pierson, 1994). However, the retrenchment perspective did not gain influence because of its conceptualization of change, but rather because of its specifications of changing political logics, mechanisms, or strategies - in short, the independent variables. Taking Reagan's USA and Thatcher's UK as worst case scenarios, Pierson felt safe in concluding that welfare states were highly resistant to change.

This raised the well-known “dependent variable debate”: Although Pierson was able to demonstrate that very little happened to social budgets at the aggregate level, others pointed out that in terms of compensation levels, or in terms of reduced spending for particular programmes, as compared to status quo, quite a lot had happened indeed in some instances (Korpi, 2002; Korpi & Palme, 2003; Green-Pedersen, 2002). Korpi & Palme (2003) also argued that aggregate measures were misleading as they did not really build on any strict conceptualisation of the welfare state. Compensation levels, on the other hand (along with eligibility and duration criteria), are more strictly linked to the notion of decommodification which has been seen by many welfare researchers as the essence of the welfare state (see below). Further, Korpi & Palme called attention to institutional change as this is also important for norms, mobilization and power (nobody would disagree on that point, however).

Although figures like compensation levels are in many respects more informative, changes in social expenditure (preferably cleaned for business cycle effects) will probably always serve as an important first indicator. Besides, compensation level figures are not without problems, either. In the first place, there will always be a selection problem: Which transfers should be included? Are they representative? Secondly, there is the practical problem that the

most widely used household type (single-earner household) hardly exists anymore. And third, like welfare state theory in general, all such measures are biased towards the part of the welfare state that is constituted by social transfers; however, the service side may be equally important.

But all quantitative measures like social expenditures or replacement rates suffer from two common problems: In the first place, unless changes in such quantitative measures are really big, they do not necessarily tell us much about qualitative change. And secondly, there may be other, not strictly public arrangements that compensate. For instance, if (formally private) labour market pensions becomes a substitute for public earnings-related pensions, it makes little sense to compare average replacement levels of the public component across systems. If we want to restrict ourselves to the public component, minimum levels and poverty alleviation would be the most relevant indicators. If we want to have an impression of how the system works, however, such output measures are insufficient. Rather, we would need outcome measures that take account of both the public and the private components, at least the collective ones.

3. First-, second- and third order change

Peter Hall's (1993) distinction between first-, second- and third order change represented a way to overcome some of the difficulties of purely quantitative measures. His concepts of change were modelled on the transition from Keynesianism to monetarism during the Thatcher era in the UK. First-order changes denote changes in levels which are usually believed to be the least far-reaching as it is only quantitative. Second-order changes refer to changes in instruments to obtain the same goal. And third-order changes refer to paradigmatic change that alters the entire world view, perceptions of causality, and goals. Even though Hall was primarily occupied with social learning, application of the concepts has reached further.

The scale is believed to be cumulative and appears very plausible at first sight. However, it is basically multidimensional, and the individual dimensions do not always follow each other. Third-order change is seen as a "systemic" change, a complete path breaking, which is linked to major political conflict. This was certainly the case with monetarism in the UK, but parallel changes in the field of welfare policies have often been much less conflict-ridden, either because they were not *immediately* associated with much change in outcomes, or because they were introduced *incrementally*. This holds for instance with regard to the change of the Danish pensions system through the gradual introduction of funded labour market pensions negotiated in collective wage agreements (Andersen, 2001), as well as the 1993/94 adaptation of the public pensions system which became more means-tested but at a higher level, so that almost everybody would gain in the short run. In institutional terms, this was a revolution, but there was no

immediate change in paradigm or in outcomes. The change from a demand-side economic philosophy in Denmark to a supply side perspective with emphasis on incentives and distortions of the market (Andersen, 2002a) also went quietly and peacefully over the years 1988-1992. In this case, there was a marked change in discourse, some change in institutions, but little immediate change in outcomes. Indeed, most countries seems to have experienced a gradual transition from a demand-oriented “Keynesian” economic paradigm to a much more supply-side oriented paradigm. Whereas the Keynesian paradigm saw state action as the solution to market imperfections, the supply-side paradigm takes market equilibria as their point of departure and see the market as the cure for disincentives and distortions caused by welfare arrangements, regulation of the economy, and collective agreements. This paradigm has increasingly been institutionalised in economic models that are used by political actors for forecasting and evaluation of effects.

In the Danish case, the diagnoses of Right and Left became increasingly similar, but the preferred instruments were different, and even though the impact of ideas should not be neglected, these ideas were to a large degree accepted only because they were compatible with the short- and medium term interests of the most important actors. Social Democrats wanted to use active labour market policies and upgrading of qualifications to meet the productivity requirements of high minimum wages, as well as discretionary strategies to avoid bottlenecks at regional labour markets. The bourgeois parties preferred more straight market strategies that would go further towards adapting minimum wages to productivity (and towards adapting unemployment benefits to lower minimum wages). And some centre parties preferred state subsidies for certain private services in order to reduce unemployment. All these competing strategies could to a large extent formulated within an economic supply-side paradigm (structural unemployment paradigm) that described mismatch between qualification levels and minimum wages as a major cause of long-term unemployment (Andersen et al., 2003).

The main problem with Hall’s third order change is that it tells too little about output and outcomes. Discursive or institutional changes may be profound without having much practical effects, at least in the short run. Correspondingly, the main problem with the notion of first order change is that such change may indeed be important or even “systemic” if the changes are big enough. As pointed out by Clasen (2000), as judged from the perspective of paradigmatic change, the changes in labour market policies in the 1990's were probably more far-reaching than in the Netherlands, but as judged from an outcome perspective, one would probably reach the opposite conclusion, whereas the difference in terms of changes in institutions probably fall in-between.

4. Pierson: De-commodification, cost containment and recalibration

The problem of “systemic” impact of change in levels is in principle solved by the more elaborate concepts of institutional change presented by Pierson in *The New Politics of the Welfare State* (2001). In a tripartition that bears some similarity to Hall’s (1993) distinction between first, second, and third-order change. Pierson distinguished between:

- cost containment
- recalibration
- recommodification

Recalibration will often refer to second-order change: Maintaining purposes but changing the means. The difference between “small” and “large” change of levels is captured by the distinction between cost containment and recommodification. Whereas social expenditures *per se* could be considered epiphenomenal during the expansionary period of the welfare state (Esping-Andersen, 1990:19), Pierson (2001:423) has a strong point in arguing that cost containment is indeed a decisive goal *per se* in an era of austerity. Welfare states have been more or less forced to reduce budget deficits and to lower compensation rates. But cost containment is not tantamount to recommodification. For instance, the reduction of compensation rates for unemployment benefits in Sweden from 90 to 80 per cent can hardly be labelled “recommodification”. It was a form of cost containment that was simply “necessary to rescue the welfare state at a critical juncture” (Hort, 2003) - even though it may be noted that the cutbacks were not fully redressed after the crisis, and even though the effect may be a slight re-commodification.

Significant *re-commodification*, however, represents a *systemic* change of welfare states. This may often be an effect of third-order change in Hall’s conception, but recommodification could also result from large quantitative changes in entitlements, as well as changes in eligibility and conditionality oriented towards providing stronger incentives to work, disciplining the workforce or more generally stimulating market solutions as alternatives to welfare. The problem with Hall’s distinctions, if they are applied beyond the field of social learning, is that they do not tell much about effects and about the magnitude of effects.

Whether or not decommodification should at all be taken as the fundamental concept of the welfare state as suggested by Esping-Andersen (1990), remains a matter of debate. It depends on the specification of the concept. On the one hand, Esping-Andersen links the concept to Marshall’s notion of social citizenship which basically is about a right to full participation in society as a(n equal) citizen, regardless of market position (Andersen, 2005). On the other hand, when Esping-Andersen (1990: 23) claims that “a minimal definition must entail that citizens can

freely, and without potential loss of job, income or general welfare, opt out of work when they themselves consider it necessary”, it is difficult to claim that Scandinavian countries are extremely decommodified. Historically, few countries have underlined the duty to work as strongly as Sweden, and to describe the essence of Scandinavian welfare states as “politics against markets” (Esping-Andersen, 1985) also conceals the fact that in many respects, these welfare states have acted very much in conformity with the market (universalism *as such* is very much in conformity with the market) - with the one significant exception that it has always been a strong ambition to avoid poverty and to redistribute incomes according to notions of equity and equality.

Re-commodification in the narrow sense would refer to strengthening of duties or of work incentives and market-related incentives altogether. In the broader sense, it would imply a more fundamental break with a Marshallian notion of full citizenship by withdrawing social rights on a broad scale and replacing them with market alternatives and means-tested minimum protection on the other. In the narrow sense, re-commodification has proceeded quite far in many countries, guided by new economic theories. In the broader sense, however, it is difficult to claim that countries like the Scandinavian ones have very much moved in this direction. In partial contrast to the notion of austerity, Kuhnle (2000) has argued that in the future, universalism might be threatened by *affluence* more than by economic strains, as more and more people can afford to opt out of public arrangements in favour of private ones.

Finally, Pierson’s third modus of change, recalibration, is defined as “reforms which seek to make contemporary welfare reforms more consistent with contemporary goals and demands for social provision” (Pierson, 2001: 425). Pierson distinguishes between two forms of recalibration: “Rationalization” is defined as “modification of programmes in line with new ideas about how to achieve established goals” whereas “updating” is defined as “efforts to adapt to changing societal demands and norms”. As examples of rationalization are listed correction of “obviously ‘incentive-incompatible programmes’” or “overshooting”, like disability pensions in the Netherlands, public service pensions in Italy, reform of sickness pay in Sweden, or reforms to make public services more efficient or more responsive (Pierson, 2001: 425).

As noted by Pierson, it is difficult to draw a clear line between cost containment and decommodification, and it is even more difficult to draw a clear line between cutbacks and recalibration. The latter concept is anything but precise. But it is nevertheless important to introduce such notions in order to avoid the pitfalls of equating almost any change of the welfare state with rolling back the state, as would otherwise be the case.

5. Path departure

Retrenchment may also take the shape of institutional reforms rather than just modifying the levels. In his first book on retrenchment, Pierson (1994) distinguished between programmatic and systemic retrenchment. Systemic retrenchment referred to “policy changes that may increase the prospects for future cutbacks” (p.6) - such as defunding (weakening future revenues), strengthening the power position budget cutters, or weakening the power position of pro-welfare groups such as the trade unions. Taylor-Gooby (1998) used the notion of systemic retrenchment in a somewhat different manner. While Pierson referred mainly to changes in *political* institutions, Taylor-Gooby referred to change in programmatic structures. In another language, this may be described as path breaking or path departure. That is, irreversible changes in the programmatic structure of welfare policies, and the installment of a new path.

By the same token, Palier (2000) explicitly translated Hall’s second-order change as path dependent change and noted that a path-breaking change might be under way in France. Hall’s third-order change clearly constitutes a path-breaking change, but path-breaking change does not correspond with Hall’s picture of third-order change. Like in Denmark, Palier (2000) found that (potentially) path-breaking change took place in incrementalistic and rather path-dependent ways (Andersen, 2001). In other words, and somewhat paradoxically, path-breaking is typically path dependent. Perhaps the metaphor “part departure” (Hering, 2003) is to prefer. As described by Andersen (2001), drawing on March & Olsen’s (1984) classical notion of martingale effects, small and seemingly unimportant changes may suddenly gain momentum and cause a self-reinforcing, radical, and sometimes even unintentional departure from the previous path. For instance, when labour market pensions in Denmark were to be introduced at a large scale, most members of the commission working with the proposals (including the chairman) were not aware that with appropriate expansion and with inevitable adjustment of basic state pensions, this would effectively mean the end of the universal flat-rate pensions system.

The notion of path dependence has proven highly useful, both in its more strict meaning as positive feedback (Pierson, 2000) and even as a more loosely applied heuristic. But the concept suffers from the problem that its negation is often difficult to imagine. What is a non-path dependent change? If the concept is taken in the broad sense, decisions will always be path dependent as they are affected by past decisions. And many decisions will also be path dependent in the somewhat stronger sense that they involve a particular mechanism. To take the latest Danish and Swedish pensions reforms, both have been described as path dependent which is correct in the sense that contribution-financed, earnings-related pensions was more or less the logical next step in the Swedish case whereas expansion of labour market pensions was the

logical next step in the case of Danish flat-rate universalism (Green-Pedersen & Lindbom, 2002). Yet, labour market pensions and occupational pensions in Denmark developed over several decades as an “innocent” supplement, before it came to a point of no return where such funded, collective but “private” pensions set off to become the backbone in the pensions system, relegating the universal component to a residual benefit in the long run.

Therefore it would seem necessary to distinguish between (at least) three types of path dependence: (i) inertia (this way the concept was frequently used in the 1990's - this is essentially a negative feedback model); (ii) positive feedback: dynamic development along a relatively predictable path (as described by Pierson); and (iii) a third type where some hitherto neglected component suddenly gains momentum and leads to self-reinforcing change. The latter type model which appears different from a simple positive feedback model, may perhaps be labelled, ultra-dynamic, martingale or path departure (Andersen, 2001; Andersen & Larsen, 2002). It is the latter type of installment of a new political dynamic (intentionally or unintentionally) that is particularly interesting when we speak of change.

6. Beyond retrenchment: Institutional change

The discussion about path breaking or path departure takes the discussion about change out of the context of retrenchment and decommodification. Decommodification is one important standard by which one can measure change, and retrenchment is certainly an important perspective. Yet, the association between economic austerity and welfare state change is far less obvious than it could seem, both empirically and logically. For instance, privatization of public services is in some instances proved to be more likely in periods of prosperity because resistance from public employees who fear unemployment is weaker (Pallesen, 2005). Also, the Danish experience was that more far-reaching institutional reforms could be carried through in the prosperous 1990's than in the crisis-ridden 1980's - partly because economic prosperity made it easier to find economic compensation and avoid having any losers here and now (Andersen, 2000). Welfare reforms often cost money, at least in the short run, if they are to be carried through politically, and money is more easily available in times of prosperity. Also, tightening the conditions for receiving unemployment benefits may be carried through more easily when unemployment is low than when it is high, because the chances of finding a job are higher during prosperity. To conclude: Economic pressures may work both ways in relation to welfare state reform.

But at any rate, it is interesting simply to examine whether institutions have changed, regardless of whether this was done in response to economic problems, changing interests or power relations, new ideas or other factors. Decommodification may be one dimension on which

to measure impact, but a first stage is to establish whether change has at all taken place - and this need not only be oriented towards recommodification.

6.1. Targeting benefits

The first example of conceptualisation of institutional change actually comes close to decommodification and involves a similar state-market dichotomy. We may begin with Neil Gilbert's (2001, 2002, 2003) thought-provoking analyses of targeting and of the alleged "silent surrender of public responsibility" for welfare. Targeting in Gilbert's usage of the word refers to increasing selectivity or declining universalism in the allocation of benefits, with sharper focus on "benefits on those most in need, and the tightening of benefit levels directly through lowering replacement rates, lengthening the waiting time, and shortening the duration of benefits" (Gilbert, 2003: 5). Basically, these are standard criteria similar to those encountered by Esping-Andersen (1990).

We shall not engage here in the highly complex issue of definition and operationalisation of universalism, residualism, selectivism and targeting (see Andersen, 1999; Bendix Jensen, 2004; Kildal & Kuhnle, 2005; Spicker, 2005) but only point at the need to consider not only formal rules but also include outcome measures such as the ratio between recipients of social assistance and unemployment benefits among those unemployed. Further, it is important to distinguish between excluding the rich and targeting the poor. While targeting benefits to the poor tend to be associated with division and stigmatization, this is not necessarily the case with the former. By the same token, one may distinguish between "positive" and "negative" selectivism where the former means that particular groups or persons are entitled to some supplement (Thompson & Hoggett, 1996; Andersen 1999).

6.2. A broad approach: changing principles

However, a more systematic account should also include a study of what happens to *other* principles of welfare. A preliminary study of this sort is carried out by Clasen & Oorschot (2002) who present a different picture than Gilbert. It may be the case that principles of residualism spread, but what happens to the other principles - to the principle of merit/reciprocity/achievement characteristic of Bismarckian welfare states, to the principle of universalism (and to the principles of Beveridge which were also included in that study)?

Clasen & Oorschot's (2002) study provides a much more balanced view as examples of expansion of the other principles are not at all difficult to find. For instance, the Scandinavian pensions systems (except the Danish) have moved gradually from flat-rate universalism, over an

“encompassing model” towards strict contribution-defined systems (see also Myles & Pierson, 2001; Larsen & Andersen, 2004; Bonoli, 2003). And the 1980's which witnessed much retrenchment and recommodification in Denmark were at the same time rich on examples of the continued spread of universalism in Denmark - like child benefits, student's allowances, home help for elderly people (Andersen, 2000). Even unemployment benefits and social assistance have approached flat-rate universalism as ceilings are lowered or as discretion has been reduced (Andersen, 2005).

6.3. “Enabling state” and broader trends

For Gilbert (2002, 2003), targeting is just one among several components of a welfare state change which he claims is taking place almost everywhere as a “silent revolution”: Because it has happened as a series of incremental changes across a number of programmes, most people (and most researchers) have not really managed to grasp the *gestalt*, Gilbert maintains. He lists three key elements in this move towards what he labels an enabling state (Gilbert, 2003; see also Gilbert & Gilbert, 1991; Gilbert, 1995). These three elements are:

- targeting
- workfare
- privatization

Workfare in the narrow sense means that people (in particular social assistance clients) are required to work in return for the benefits they receive from the state. First and foremost, this should act as a deterrent and as a disciplinary device that provides non-economic incentives to work. In a broader sense, all policies that promote work, including the strengthening of economic incentives to work across a large number of policy programmes may be seen as an aspect of workfare (Gilbert, 2002: 47; see also Barbier, 2004; 2005); not least at this point, most countries have experienced a bit of a revolution. These are certainly relevant dimensions of change to point out; yet we find very diverse applications in different welfare states even here.

We shall deal further with privatization below. As pointed out by Gilbert (2002, 2005), this may include a large number of quite different programmes, from outsourcing and use of vouchers to increasing user charges. To continue Gilbert's line of reasoning, one could also include those New Public Management reforms which seek to re-model the public sector from the ideal of a firm or a market. Further, Gilbert reminds that governments often subsidize private welfare through tax deductions etc. To complete the picture, one could also add the individualisation of social risks involved when one moves from defined benefit to purely contribution-defined

benefits. Gilbert (2002) undoubtedly has a point in claiming that equality as a goal has to a large extent been replaced by other notions of equity.

More generally, Gilbert notes that welfare policies are increasingly becoming subordinated to economic concerns (2002: 43). Indeed, it is not difficult to find illustrations of this. For instance the Danish “Welfare Commission” (working 2003-2005 with sustainability problems of welfare state and supposed to come up with proposals for welfare reforms) was not at all occupied with welfare problems created by market imperfections but almost exclusively with alleviating the problems that welfare arrangements allegedly impose on the smooth functioning of the market: Rather than seeing the welfare state as the solution to market problems, the welfare state has become the problem and “more market” has become the solution.

Gilbert underlines that these changes do not only represent adaptations to economic pressures. They also have a strong normative aspect as they put a much stronger emphasis on individual responsibility (2002: 47). Gilbert’s work is stimulating as it tries to summarize several different trends which are working at the same time across different policy fields and allegedly form part of a greater project for transformation of the welfare state, and for society at large. It also strong on arguments that all this is not simply a matter of retrenchment. However, it is less strong in pointing out the potential counter-evidence one could look for. And it is also weak on outcomes: What is, for instance, the effects of “workfare” on citizenship? How do various “workfare” policies distinguish, and how are they implemented?

It is probably a general trend that welfare concerns are to a larger degree than previously subordinated to the concern for the market, and that there is much effort to have welfare states working more in conformity with the market. “Politics against markets”, to use Esping-Andersen’s (1985) phrase is to quite some extent being replaced by “politics for markets”. As pointed out by Barbier (2005), activation in the broad sense is not just about workfare or qualification, but about a reorientation in of all sorts of state policy towards strengthening incentives to work, removing regulations that impede market flexibility etc.

Still, it would be too simple to regard this just as a matter of recommodification. One could also phrase it as a search for “win-win solutions”. The debate about “flexicurity” is a case in point. It is a popular - and mobilizing - way of expressing the possibility of a win-win combination of companies’ need for flexibility and workers’ need for security. This can be obtained in a number of different ways. For instance, the Danish formula is a combination of very low protection against being fired, relatively generous unemployment benefits with long duration, and active labour market policies (Kongshøj Madsen, 2002). This combination is not without problems, but from a market perspective, the advantages are larger than its drawbacks, and from

a social point of view, there is no doubt that the Danish system has been unique in preventing social marginalisation among those unemployed (Andersen, 2003). It is remarkable that the Danish TUC warns against better employment protection at the company level. Various models of “flexicurity” (combinations of flexibility and security, not least the Danish, see) are presented as alternatives to traditional forms of social protection.

When it comes to such broader notions of welfare state change, it may often become quite misleading to use an indicator-by-indicator approach as in traditional measures of retrenchment and recommodification. It is the *gestalt*, the *combination* of arrangements that counts. Of course, this may partly be described in institutional terms, perhaps as an instance of “recalibration”. But it can hardly be assessed without putting a main emphasis on outcomes. For instance, by traditional measures, “flexicurity” could be considered just an euphemism and a legitimization of market-oriented reform.

7. Individualism, postmaterialism and active citizenship

The welfare state also face a need to adapt to increasing individualisation and to a population having much stronger individual resources. This is reflected in changing values: The theory of postmaterialism (Inglehart, 1998) underlined people’s demand for democratic voice opportunities; and the somewhat less developed theories of individualism have underlined the demand for more exit or choice opportunities. Individualism, it must be emphasized, is a multidimensional concept (Ester, Halman & de Moor, 1994). Egoism and lack of solidarity is one dimension, but nothing indicates that this is increasing. Rather, it is the demand for autonomy and for being able to “write one’s own biography” that is increasing.

From a traditional point of view, it would be tempting to establish a conflict between individualism and solidarity but nothing indicates that the two cannot be combined. With increasing emphasis on individualism also follows an emphasis on individual responsibility. More generally, Jensen & Pfau-Effinger (2005) speak of a change of citizenship ideals towards an “active citizenship” where citizens not only have rights but also have duties to exploit these rights actively, to use their choice opportunities, and take more responsibility for their own destiny altogether.

Some solutions put forward to adjust to these changes would inevitably involve an individualisation of social risk and a trend towards increasing inequality. This holds for instance for almost any conceivable idea of “citizens’ accounts” or “social drawing rights”: Low-risk groups would gain rights they did not use to have, and groups with the opposite risk profile would receive inadequate protection. There are also problems with voice and choice opportunities being

used primarily by the socioeconomically strong groups. On the other hand, it would be wrong to conceive of this simply as a zero-sum game. Important factors are design and implementation, and once again, in the final analyses, it must be evaluated from an *outcome* perspective.

This holds as well for activation which is an equally ambiguous change. As pointed out by Barbier (2005), one has to distinguish carefully between different forms of activation programmes and their implementation. Some programmes - notably those found in Liberal welfare regimes - come close to workfare. Others - like those found in the Scandinavian countries - also to a large degree represent adaptations to individual needs, dialogue, and individual treatment (see also Born & Jensen, 2002). Perhaps it would be more correct to see activation as a battlefield where some political forces want to drive it towards the workfare pole, others try to increase the element of responsiveness, dialogue, etc. - and the serious attempt to bring people back to work, as far as possible to the kind of work that corresponds with their preferences.

Surely, such programmes can only be evaluated from an outcome perspective. Often formal laws and formal requirements tell very little about actual practices. The law may change considerable without leading to changing practices (for instance, requirements for daily commuting time for unemployed in Denmark is four hours, but this rule is probably almost never applied). On the other hand, practices could be changed in an almost path-breaking way without changing the law, just by controlling the administration (Larsen & Andersen, 2004).

Undoubtedly, adaptation to individualisation and requirements for active citizenship can mean more voice and choice opportunities for the middle classes, and more discipline and workfare for the lower classes. Probably this is to some extent the reality (Togeby, 2002). But there is continually a political battle going on about the actual implementation of such ideas. Trying to establish the direction of such change by looking only at formal rules and by applying one-dimensional notions of retrenchment or recommodification would be highly misleading.

8. Services: Privatisation and new public management

Also within the field of services, we find in many countries an expansion of market arrangements and of applying market ideals in the reorganisation of the public sector. We live in a “governance” world, where clear-cut distinctions between public and private tend to become blurred. To begin with privatisation, however, it is important to notice that this can take a variety of forms. Just by combining three criteria, we may distinguish between eight different combinations: One is the pure market, another is the pure public sector, and six fall in-between. The three criteria are: who decides, who pays, and who delivers (Figure 1).

Figure 1. Eight possible combinations of state and market.

	Who decides	Who pays	Who delivers
1. Pure state	+	+	+
2. Outsourcing	+	+	-
3. User charges	+	-	(+)
4. Citizen account	-	+	(+)
5. Voucher	-	+	(-)
6. Free competition	-	-	+
7. Obligatory insurance	+	-	-
8. Pure market	-	-	-

To what extent do such changes represent a change towards a more liberal welfare state? Outsourcing simply means that private companies are hired to deliver welfare services, typically in competition with public service providers. *In principle*, this can be done in a way that does no harm to redistribution, solidarity or any characteristic we associate with the welfare state. In some situations where it is easy to specify what should be delivered, and where there is full competition, this can simply mean more value for money because there are incentives to increase not only efficiency (in order to be competitive) but also responsiveness (in order to maintain customers).

User charges are somewhat less “innocent” as they usually have strong distributional impacts. Here public services are left intact as they were - the only difference is to increase payment, e.g. for kindergartens and other services that are not delivered completely free of charge. Similar distributional problems are encountered when we speak of citizens’ accounts or social drawing rights. Here we speak mainly of transfers and right to opt out of the labour market for a certain time during one’s career. Clearly, there will easily become a deficit for certain groups with high risks whereas some groups who have zero risk and work without interruption throughout their career would suddenly have a right to retirement or a cash premium that has to be paid for by somebody.

Vouchers giving users the right to choose the service provider they want - be it public or private - resemble outsourcing in the sense that this has no immediate distributional impacts. Like with outsourcing, a more relevant concern is whether it actually does save money or provide more efficient services. Further, the use of vouchers, for instance in the health sector, may make

it much more difficult to control budgets and lead to a tax-subsidized expansion of very expensive private alternatives that are mainly used by the more well-to-do people. This can put pressure on public budgets and lead to need for retrenchment in other areas.

Free competition means that the public sector is allowed to participate in the competition for delivering extraordinary services in addition to what is paid for by the welfare state. Such service markets tend to expand as people become more affluent, and public service institutions often feel restricted by normally not being allowed to participate in such competition. However, if they were, the question is whether this could change the focus and the rationale of action so that public service institutions became a sort of semi-private companies competing for gaining a larger share of the market. Core activities and concern for the weak groups who have no alternative might easily be sacrificed.

Finally, obligatory insurance can be used in several areas, for instance in the field of pensions: People may be required to make a pensions savings at a private insurance company or given the choice between a private and a public option. Still, this is a regulated market and can also be a pillar design to fit into a multipillar system.

In addition to these various forms of mixes that represent different instances of privatisation, the public sector may also reorganise in accordance with ways of management that are usually applied in private firms. Time and space does not allow for any such discussion of “New Public Management” but it is worth noting that in several countries, market mechanisms are mushrooming within the public service sector.

How should such changes be evaluated? As a “marketization” of the welfare state that changes the overall function or direction of the welfare state? Or as a “recalibration” - basically new means for old goals - to use the terms of Hall and Pierson? To judge on this, we have to distinguish between the various forms listed above. We have to apply an outcome perspective. And we have to distinguish between short-term and long-term effects.

Except in the instances where the public sector drops its responsibility for payments, short-term effects may be small, as seen from an outcome perspective. In several instances, it may be a “win-win” situation: Same services for less money, or more services for the same. Especially in the case of higher user charges, however, there are bound to be considerable distributional effects. Outsourcing is at the other extreme: It need not have any effects at all from the point of view of citizens/users.

However, there are also long-term institutional effects that must be taken into consideration. The first is the normative impact, both on citizens and on public employees. Both groups may behave increasingly in accordance with market principles. Service institutions may

compete for the “good customers”, and users may lose any concern for other users (for instance for the children of the other parents). The way of thinking about the public sector just as another service to be bought may have considerable long-term impacts. The other potential effect concerns interest groups and power. New interest groups of public service providers will emerge, and as vested interests, they will claim influence on future welfare policies. What appears neutral in distributional terms in the short run may have strong normative effects in the long run. But once again, the changes must be evaluated from an outcome perspective. Experimenting with market mechanisms within the public sector may in principle be possible without distorting the purpose of the welfare state.

9. Multipillarization and the inclusion of services

As pointed out in the discussion about “welfare pluralism” (Johnson, 1987) and the “enabling state” for that sake (Gilbert & Gilbert, 1991), there are many ways to provide welfare by combining the responsibilities of the state, the market, the family and voluntary associations (the “welfare triangle”) - as well as employers, the social partners and perhaps others. In fact, different welfare regimes can exactly be described as different combinations of such responsibilities (Kuhnle, 2000; Esping-Andersen, 1999).

However, what is particularly interesting here is the possibility of expanding the market or other components at the expense of the state *without* changing the basic characteristics of the welfare regime as measured by an outcome perspective. The reason why this is interesting is of course that it could ease the financial burden of the state in a future where ageing will - to a varying degree - impose new economic pressures on the welfare state. Furthermore, the demand for welfare services can hardly be expected to decline, rather the opposite - both absolutely and relatively.⁴ And even if there may be surprisingly few limits as far as people’s willingness to pay taxes is concerned, there are limits to the levels of taxes in a market economy - even though it is worth noting that the conviction that “taxes cannot be increased” is shared by political leaders in countries with dramatically different tax burdens: Some are certainly wrong - in some countries, taxes could increase a lot without doing any harm.

Once again, it’s a political battlefield. But it cannot be *reduced* to a political battlefield, and changes do take the direction towards multipillarization in some areas, notably in pensions.

4

The degree may vary, however. When the Scandinavian countries were building out child care and other care facilities, demand was nearly unlimited. With virtually 100 per cent coverage of child care institutions, demand for increasing expenditures has levelled off somewhat.

In the Danish case, for instance, it has been estimated that only some 30 per cent of future incomes for pensioners (with the denominator including only *collective* arrangements) will derive from pay as you go public pensions (Det Økonomiske Råd, 1998). To this comes individual pensions savings. Like in other countries with similar systems, multipillarization was an effect of the failure to introduce earnings-related public pensions in time. But it was also in accordance with later recommendations of the World Bank (1994) and others to introduce a funded, private pillar in the pensions system as this is one way of meeting the challenge of ageing populations.

How should such institutional change be interpreted? In the Danish case, public pensions are actually phased out to become only a residual element. Only one-half of the flat-rate standard pension is universal, the other half is means-tested. Even the universal component is under pressure as it is often argued that groups with high private pensions savings will not need it. As pointed out by Ploug (2001), from the point of view of traditional welfare state theory, the Danish pensions system is an “Ugly Duckling” but it may be more appropriate (in some respects) to regard it as a “beautiful swan” as it solves a number of financial problems of the welfare state.

Even though the public pensions system is moving back towards a residual system like in the first half of the 20th Century, the difference as compared to the encompassing public pensions systems in the other Scandinavian countries is not necessarily very large in terms of outcomes. Actually, the minimum pension in Denmark will most likely be higher than in the other countries, and it does not seem likely that it will produce more inequality among pensioners than the other Scandinavian pensions systems. With the redistributive “Special Pensions Savings” (which was changed to a non-redistributive system in 2002), the change of pensions system would even have been possible without increasing inequality.

In institutional terms, there is nothing left of a “universal” Scandinavian model as far as the pensions system is concerned. As measured by outcome, however, the systems are likely to become at least as similar as they were previously. In short, the systems may be “functionally equivalent”: they are institutionally different, but they produce the same outcome: Earnings-related pensions with relatively high replacement rates and relatively high minima, not least in the “privatized” Danish system..

However, the potential for further change is larger in Denmark. Privatized pensions generate new interest groups (in the Danish case, however, it is more the social partners than private banks and insurance companies that are strengthened), and privatized pensions may generate new ways of thinking about pensions. In short, we have to consider not only short-term functional equivalence, but also long-term institutional effects. But this is a far more complicated story than a story about retrenchment, recommodification etc.

Some of the important questions for research are: Which outcomes should be measured? What is the potential for further institutional change? And finally: Can the changes in the pensions system be seen in isolation from the change in welfare services? If pensions have been recommodified and de-universalised, the very opposite has happened to services for pensioners. Even if they may not always be adequate, these services are universal, free, and generous by comparative standards. This must also be taken into account when evaluating the pensions system cross-nationally. It does matter whether cash transfers is the only “service” delivered to pensioners, or whether they also have access to a large number of other (free) services.

10. A multidimensional notion of change

It is not possible to cover all notions of welfare state change in this brief account, nor is it possible to bring up a solution that solves all the issues of complexity. But we may perhaps sketch some points of departure. In brief, we should recognize that:

Change is multidimensional, and change in discourse, institutions, output levels and outcomes do not always point in the same direction

Not all changes can be conceptualised as retrenchment, or as re-commodification

The welfare state is being reorganised, and the entire welfare mix between public services and transfers, as well as between public and “private” arrangements, has to be taken into account

We should put more emphasis on the outcome side, at least if the purpose is understanding regime change and the clustering of welfare states in the future

Institutions matter, but different institutions may sometimes produce functionally equivalent results

However, institutional change may also mean the installment of new dynamics

10.1. The multidimensionality of change

Change is multidimensional, and various aspects of welfare state change like change in discourse/problem definitions, institutions, outputs and outcomes do not always follow each other. They must be evaluated separately. Furthermore, at least for the purpose of clustering welfare states, outcomes appears more important than institutions. For instance, in the field of pensions, we are basically left with two types of pensions systems: Earnings-related contributory systems and multipillar systems. But if the intra-class variations in outcomes are larger than the inter-class variations, the analysis can obviously not stop with institutions. In particular, if welfare states are forced to modify their institutional set-up, we should address this issue very explicitly.

10.2. Not all changes can be conceptualised as retrenchment or re-commodification

It is equally important to underline that the analysis of welfare state change has to move beyond the context of retrenchment and recommodification. The literature about retrenchment has provided excellent insights, but not all welfare changes originate from retrenchment. The perspective of recommodification is important, but it belongs too much to a “government” world. Its narrow focus on state welfare is often misleading, and it is likely to become even more misleading in the future.

10.3. Reorganisation of the welfare state force us to consider the entire welfare mix

Welfare states are currently reorganised, not least in order to meet future challenges. To a large extent, they are reorganized by political actors seeking for new ways to obtain similar goals. This involves a reconsideration of the mix between private and public components. Not in order to abolish the welfare state but in order to find more economically sustainable solutions. This may in principle involve a rich variety of new combinations of “private” and public arrangements - combinations that are typically directed by the state. When so much political effort is put towards changing the institutional design in a way that does as little harm as possible to outcomes, research has to adapt to that - and to examine whether it succeeds or not.

10.4. It is crucial to include the outcome perspective

The continued value of the notion of decommodification is that it provides us with important outcome parameters. If we evaluate outcomes, what aspects are then most important? At least the following parameters come to mind: Redistribution/equality, poverty, and citizenship. In particular, full citizenship, active citizenship and equal treatment as citizens appear to be the most important output dimensions. This points at the need to update T.H.Marshall’s classical notion of citizenship which actually does contain in somewhat embryonic forms the parameters that are relevant for evaluating outcomes.

10.5. Rediscovery of functionalism?

Ever since March & Olsen’s (1984) seminal article on “The new institutionalism”, the phrase “institutions matter!” has been written in italics in any political science textbook, and soon thereafter in any textbook about the welfare state. Certainly institutions do matter a lot, but they still allow for much variation in output and outcomes.

In principle, similar institutions may produce highly different outcomes. And different institutions may produce quite similar - “functionally equivalent” - outcomes. As mentioned, this

is probably the case with regard to the Nordic pensions systems. This notion of “functional equivalence” is certainly anything but new. It reminds of the functionalism at the earliest stages of comparative welfare state research. But the forces behind may well be political rather than anonymous socioeconomic forces, and no theory of modernization or convergence is implied. Classical functionalism may predict that one way or another, societies may converge towards earnings-related pensions, or that there will be “crowding out”/”crowding in” between public and private welfare (Øverbye, 1994, 1998; Adema, 1999). But otherwise, there is no reason to expect convergence across nations.

10.6. Institutional dynamics

As important point when evaluating the magnitude and direction of change - not least change that appears to be parallel across countries with different institutions - is to consider the potential for further institutional change. Institutions may “learn” people to think in particular ways, and institutions affect power relations and generate new interest groups. This may pave the way for further changes, intentionally or unintentionally. Not least multipillarisation and experiments with privatisation or the establishment of quasi-markets in public services may socialise people to think in much less “solidaristic” terms about welfare. But such effects are badly documented, and the idea of potentials for further change rests more on plausible arguments than on the identification of empirical trends. To obtain more knowledge about such pressures is certainly a major challenge to welfare state research in the future.

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